

## Philadelphia Housing Continues to Surge Forward in Q2 Prices and sales set records, while inventories drop to an all-time low.

**July 20, 2017:** It's July in Philadelphia, and if you think the weather is hot, you should see the most recent numbers on the city's housing market. Consider:

- The median house price in Philadelphia increased nearly 15% in just the last three months to hit a new high of \$158,000. Similarly, the average house price grew 13.2% during the same period to also hit a new all-time high of \$198,150. NOTE: those are *quarterly*—not *annual*—increases.
- The Philadelphia house price index rose 3.2% in Q2. Although this was a deceleration from 5% in the previous quarter, it is still very aggressive when compared to Philadelphia's average historic quarterly appreciation rate of only 1.1%.
- The Philadelphia house price index is up 9% from a year ago. Since its average historic appreciation rate is 4.5% per year, this implies that house prices in Philadelphia are currently increasing at twice the speed of their average historic rate.
- Philadelphia is currently outperforming most other large U.S. cities in house price growth. Prices here are currently appreciating at a rate of 9% per year, whereas the house price index<sup>1</sup> for the top ten largest U.S. cities (excluding Philadelphia) is currently growing at only 4.8% per year.
- The recent house price increases are almost completely spread across the entire city. From smallest to largest, the average change in house prices by neighborhood in Q2 was: Kensington/Frankford (-1.5%)<sup>2</sup>, Upper Northeast Philadelphia (+2.6%), Lower Northeast Philadelphia (+3.1%), Northwest Philadelphia (+3.2%), University City (+3.5%), Center City/Fairmount (+4.7%), West Philadelphia (+4.8%), North Philadelphia (+5.2%), and South Philadelphia (+7.4%).
- Sales are hitting new highs, as well. There were 5,613 arms-length sales in Q2, up 28.3% from Q1 and up 17.6% from the same quarter last year. This was the highest volume of quarterly home sales in Philadelphia since 2007 Q3, when the housing bubble had just begun to burst.
- Million-dollar sales also set a new all-time record. There were 41 sales of houses at a price of one million dollars or more in Q2, which broke the previous record of 37 such sales in 2016 Q3.
- Sales of new homes are also trending upwards and hitting new highs. There were 47 sales of newly constructed houses in Q2, up from 17 in the same quarter last year. This was also the most quarterly sales of new homes since the local housing market began to recover in 2012<sup>3</sup>.

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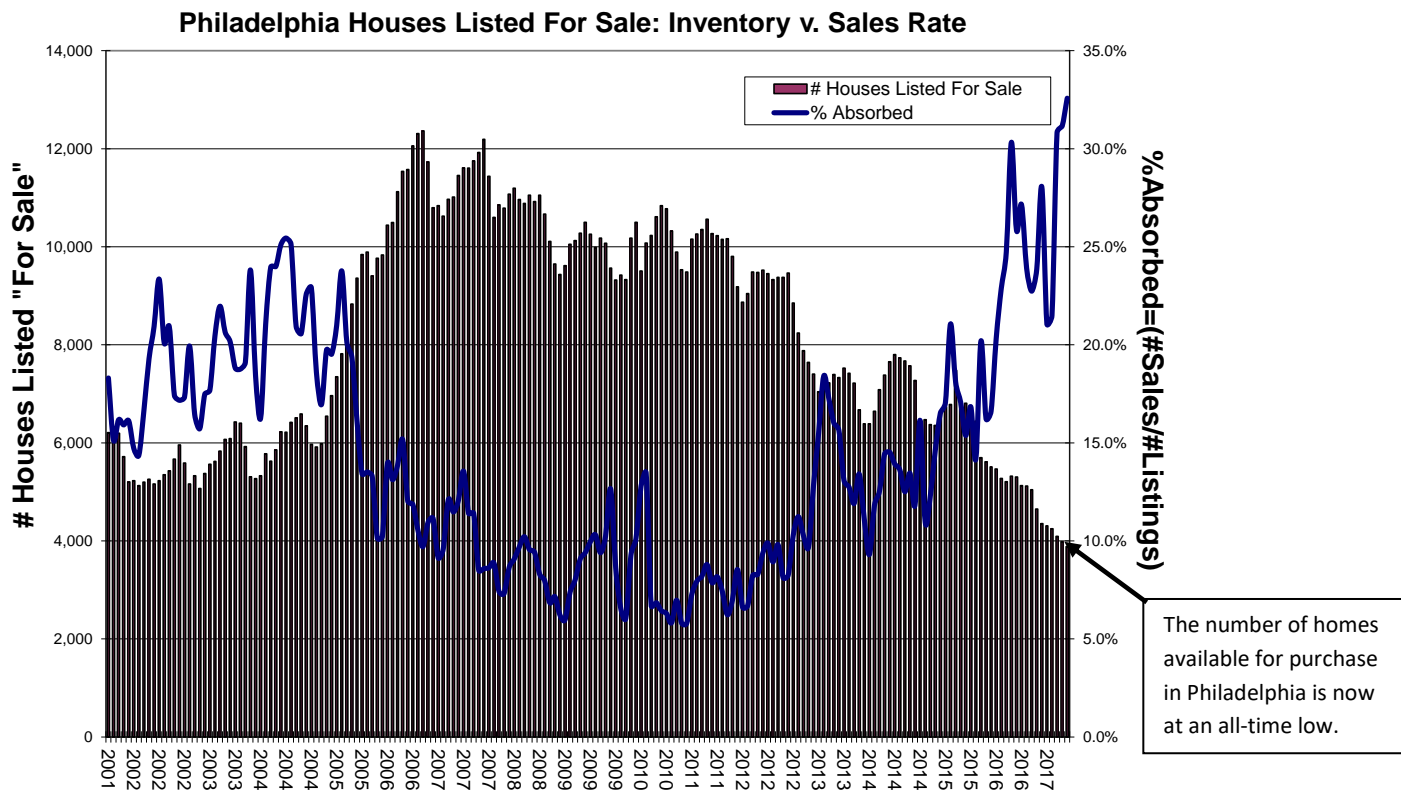
<sup>1</sup> Source: S&P CoreLogic Case-Shiller 10-City Composite House Price Index

<sup>2</sup> Although Kensington-Frankford was the only neighborhood to experience a price decline in Q2, it had experienced price appreciation of +10.5% in Q1; the largest increase of any neighborhood in Q1.

<sup>3</sup> Note: the increase in new home sales (and sales of improved homes) is also a key reason why the increase in the house price index this quarter was less than the median and average prices. The regression that computes the price index controls for the percent of sales that are new construction (and thus, higher-priced), whereas simple summary statistics like median or average price can be misleadingly skewed upwards by the addition of a few very high-priced homes to the sample.

- The speed at which sales are occurring also broke its post-bubble record in Q2. The average amount of time it currently takes for a home in Philadelphia to sell is 48 days, down 25% from 64 days in Q1. The last time that average Days-On-Market was this low was in 2006.
- Zillow currently characterizes Philadelphia’s market temperature as “Hot”. Although this is unchanged from last quarter, Zillow revised its one-year forecast for Philadelphia house prices upwards in Q2, from 3.5% to 4.5%.

A key factor in this price appreciation continues to be the exceptionally low level of inventories (the number of homes listed for sale) in Philadelphia. Although inventories are also low in many other metropolitan markets in the U.S., they have now fallen to a new all-time low here as shown in the following chart:



There are currently 3,883 houses listed ‘for sale’ in Philadelphia. This is the first time that this number has fallen below 4,000 in the history of this data going back to 2001. Combining such low supply with the current rapid pace of sales, it would take only 3.1 months to burn off the existing inventory of homes for sale. By contrast, 5-7 months is considered to be a typical of a “normal” or “balanced” market. Such severely restricted supply in an environment where demand continues to grow will almost certainly place significant upward pressure on local house prices.

As I wrote in last quarter’s market commentary: until the supply of homes available for sale increases, it seems reasonable to expect the upward pressure on Philadelphia’s house prices to continue for the near term.

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